

# Chapter 2

## Conceptualizing Social Entrepreneurship

### Where We Are and How to Move Forward

**Abstract** The purpose of this chapter is to outline the concept of social entrepreneurship, describing its origins within the whole phenomenon of social economy. Particular attention is paid to providing an overall vision of the features of this complex concept, and illustrating those elements that are mostly debated in the attempts to draft a generally accepted definition. The differences emerging across countries concerning the concept of social entrepreneurship will also be touched upon. This chapter provides an overview of what social enterprises are and the reason why assessing social impact is highly beneficial for them.

**Keywords** Social entrepreneurship • Social economy • Non-profit organization • Social mission • Entrepreneur

### 2.1 The Origins of the Phenomenon

The concept of social entrepreneurship (SE) is an innovative field of research that has recently been recognized as a dominant discourse within the field of studies on entrepreneurship. Its growing importance and the associated academic and managerial interest are evident in the increasing number of publications aimed at better investigating this concept.

Since the late 1990s, a worldwide and unprecedented surge in interest in the topic has been fostered by significant changes in the political, economic and environmental scenarios. These changes have led policy-makers, conscious citizens and disadvantaged communities to turn to private entrepreneurs for innovative and sustainable solutions that address poverty and related problems as the root causes of inequality and the uneven distribution of the world's wealth (Nicholls 2006; Shaw et al. 2013).

These alternative approaches to sustainable economic development have drawn the attention of academic researchers who are particularly interested in investigating the manifestation of entrepreneurial behaviour and practices within the context of social rather than personal gain. While, indeed, entrepreneurial phenomena aimed at

economic development have received a great amount of scholarly attention, entrepreneurship as a process to foster social progress has only in the last decades particularly attracted the interest of researchers.

Research on SE has clearly drawn on and benefited from previous work on entrepreneurship. Approaches and constructs stemming from research on entrepreneurship in the business sector shaped the first attempts to conceptualize the phenomenon of SE (*ibid*). The concept of entrepreneurship refers to the identification, evaluation and exploitation of opportunities to bring new products or services into existence as new outputs to be sold at prices higher than their cost of production (Eckhardt and Shane 2003). This definition implies that the fundamental mission of entrepreneurial activities involves profit generation and entrepreneurs' personal wealth. Analogously, SE refers to the identification, evaluation and exploitation of opportunities, and involves profit generation just as entrepreneurial activities do; this profit helps entrepreneurs to build personal wealth. However, the opportunities identified by social entrepreneurs result in social value as opposed to personal or shareholder wealth. The notion of opportunity recognition is at the heart of entrepreneurship, both in its traditional and social meaning; however, SE opportunities are different from their traditional counterpart (Austin et al. 2006). Opportunities recognized by social entrepreneurs arise from social problems and involve the attempt to create social value. Social value has little to do with profits as it concerns the fulfilment of basic and long-standing needs such as providing food, water, shelter, education, and medical services (Certo and Miller 2008).

The fusion of the entrepreneurial root and the social component led to the development of social enterprises as organizations in which economic activity is leveraged to pursue a social objective and implement a social change. SE involves the provision of goods and services, analogously to conventional entrepreneurship. However this is not an end in itself, but a means to achieve social objectives, thus contributing to social change. The focus on economic activity is important to differentiate SE from pure forms of social movements as well as from charitable and philanthropic initiatives. Yet, the transformative social ambition distinguishes SE from entrepreneurship with a conscience and other forms of doing good such as CSR or corporate philanthropy. Social entrepreneurs do not merely aim to make money without harming their environment; rather, the achievement of the social mission that they pursue is their primary objective. In this view, SE necessarily involves the entrepreneurial perspective as a form of income-generating venture aimed at social benefits instead of pure profit (Peredo and McLean 2006; Mair et al. 2012).

The relation between profit-seeking and social purpose is at the root of the development of the wider concept of social economy, in which the phenomenon of SE falls. Despite the recent attention, this is not an entirely new perspective. For at least the past century, scholars and business practitioners from a wide range of disciplinary backgrounds have deliberated over whether business should influence or merely reflect social norms and expectations. Among them, Porter and Kramer (2006, 2011) highlighted the mutual dependence between corporations and society, implying that both business decisions and social policies must follow the principle of creating shared value resulting in choices benefiting both sides.

Nevertheless, there are some elements that make current studies different from previous efforts. First, the language used is new and implies a blurring of the boundaries between the non-profit and for-profit sectors and the emergence of hybrid organizations mixing elements of both. This helps to broaden the playing field and allows social enterprises to look for the most effective methods of serving their social mission. Second, in comparison with the past, the number and range of social actors behaving entrepreneurially is far larger than at any other point in history (Bornstein 2004). Thirdly, and even more significantly, the impact that social entrepreneurs are aiming to achieve is also far more ambitious than ever before, and they are able to bring about systemic changes by influencing social behaviour on a global scale (Nicholls 2005). These features make this field of study ever more attractive and different enough to warrant its own body of theory (Weerawardena and Mort 2006; Murphy and Coombes 2009).

The emergence of the social economy has been due to a convergence of elements inside and outside organizations that created the basis for the definition and the gradual growth of these kinds of entities. Figure 2.1 shows these identified elements. In the following sections each of these trends will be described in light of its role as a favourable variable in the development of social economy and social enterprises.

2.1.1 The Emergence of New Needs

In the current economy trends such as globalization, low rates of economic growth, and the increasing complexity of society have radically changed the model of development. These trends have resulted in the emergence of new needs and growing demand for new services. Demographic and economic shifts over the past few decades have brought about significant changes in the needs of the population. Increasing life expectancy, the entrance of women into the workforce, migratory flows, and the emergence of a more knowledge-based economy are just some examples of the changes we have seen. These developments have at the same time

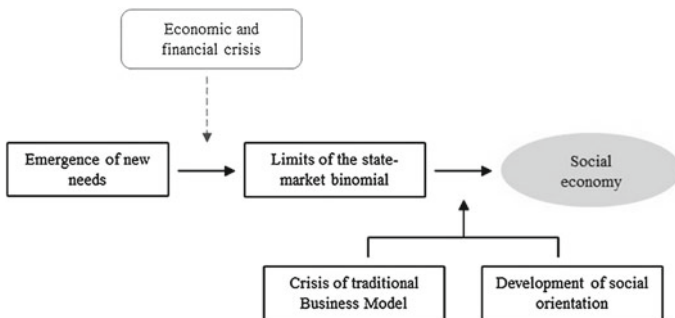


Fig. 2.1 Macro-trends leading to social economy

been the source of new problems that have required new solutions: improved ways to care for the elderly; child care as a major new area of intervention; new policy tools to ensure the economic and social integration of migrants; a continuous diversification and improvement of the education system. In addition, society needs to find appropriate responses to climate change and dwindling natural resources (Borzaga et al. 2014). Thus, the emergence of new needs and the increasing differentiation of existing ones have made demands by citizens more wide-ranging and complex.

Contrary to widely held beliefs, unfulfilled basic needs are present not only in developing countries, and this modern state of affairs forces us to look at developed countries from a different perspective. An example is the worrying data on growing poverty that European countries are currently facing.

### **Box 2.1: New poverty in European countries**

One of the five headline targets of the Europe 2020 Headline indicators is indeed the reduction of poverty, by lifting at least 20 million people out of the risk of poverty by 2020. According to Eurostat (2013), within the Euro28 area there are more than 120 million (24.8 %) people at risk of poverty or social exclusion. Considerable variations are evident among the member states, though the overall rate slightly increased between 2011 and 2012 (0.5 % points). Some unexpected trends have emerged, such as the fact that children are more at risk of poverty than elderly people in several countries. The main factors determining child poverty are the employment situation of their parents, which is linked to their level of education; the household in which they live; and the effectiveness of government intervention. Also, the number of children with migrant parents is growing: a vulnerable group that deserves particular attention. Conversely, the elderly face a lower risk of poverty or social exclusion than the overall Euro28 population.

Individuals considered at risk of poverty or social exclusion are identified as those living below the poverty threshold, severely materially deprived, or living in households with very low work intensity (defined as the ratio between the number of months that household members of working age worked during the income reference year, and the total number of months that could theoretically have been worked by the same household members). Those living in households with very low work intensity comprise 10.3 % of the population, while people whose disposable income is below their national at-risk-of-poverty threshold comprise 17 %. Finally, material deprivation—the condition of being severely affected by a lack of resources—affects 9.9 % of the population. The greatest variation from 2011 to 2012 concerns the ability of the population to face unexpected expenses (calculated as 1/12 of the poverty threshold). In 2012, 40.2 % of the population reported difficulties with covering the cost of their own resources, representing an increase of 2.1 percentage points compared with 2011.

What this data shows is that poverty rates are quite high, and not only in developing countries. Moreover, in light of the new needs of the population, the concept of poverty is now acquiring new and different meanings. The term “new poverty” has indeed been coined, referring not only to people’s economic conditions but also to the wider conditions of uncertainty and instability in which people often live. From this new perspective the concept of poverty reflects the fragility of relations, job insecurity, and feelings of inadequacy in a system where competitiveness and productivity are the dominant elements. All this comes from the demographic and social changes within societies, and includes ever more categories (e.g. elderly living alone, young couples, single parents, the unemployed).

It is possible to say that today the concept of poverty is giving way to that of social exclusion, which concerns the impossibility of, inability to, or discrimination against participating in those activities that determine for an individual their belonging to a certain community or social group. The “excluded” are thus those who have no access to social life in terms of employment, education and training, or the possibility of creating a family. The basic difference is that this issue is no longer only about money and income; rather, the focus has shifted to the relational aspects of exclusion.

An emerging need is that of social cohesion, where stable social ties are built through economic, social, cultural, political and civil institutions. Social cohesion is very often the object of the activities of social enterprises. In this sense their goal is to eradicate barriers to social cohesion such as a lack of material and intangible means, those cognitive or physical elements that hamper people from having social ties, and the lack of access to employment, welfare benefits, and social and healthcare services. The concept of social exclusion is strongly linked to the quality of interpersonal relationships, and is indeed more dynamic and operative than economic poverty (Fondazione [2007](#)).

These tendencies have made advanced economies into breeding grounds for the emergence of new kinds of businesses whose services are specifically tailored to addressing the emerging needs. In this sense, SE refers to a process of catering to locally existing basic needs that are not addressed by traditional organizations. Social enterprises are indeed characterized by the innovative approach with which they address social issues and find solutions to problematic situations. Depending on the need addressed, the process can involve the provision of goods or services and/or the creation of missing institutions, or the reshaping of inadequate ones. However, SE’s main objective is to change or modify the social and/or economic arrangements that have created the situation of failure to satisfy basic needs.

### ***2.1.2 The Limits of the State-Market Binomial***

The current scenario is characterized by unique and unparalleled challenges at global as well as national and local levels, and requires new strategies and tools to successfully address these challenges. This cannot be accomplished by the market

or the state on their own: the economic, social and political institutions that are designed to cater to the basic needs and rights of individuals in society can fail to serve large segments of the population. From the state perspective, the need for new approaches also arises in the presence of the systematic retreat of government from the provision of public goods in the face of new political ideologies that stress citizens' self-sufficiency and give primacy to market-driven models of welfare (Nicholls 2006). The economic crisis has also played a crucial role, as it has increased the inability of governments to meet the social needs of their constituencies (Pless 2012). From the market perspective, several industries have been severely penalized by the economic crisis, and the profit-seeking purpose they fulfil is often threatened by consumers' spending reductions. Moreover, companies are strictly evaluated by consumers according to their social perspective (see Sect. 2.1.4), and purchasing behaviour is increasingly used as a means to reward or punish companies' choices.

Economic globalization offers several opportunities to improve living conditions, but the simultaneous desire for continuous restructuring and change requires renewed and completely new approaches aimed at promoting sustainable economic and social development, to recover the economy and diffuse the benefits. Innovation is indeed one of the key elements underpinning economic growth, as it allows the development of new solutions to the current challenges of society. The creation of innovative business ventures can play a critical role in fostering the innovation process, because of their ability to recognize and exploit the commercial opportunities coming from technological and competitive and market changes (OECD 2010).

This is the reason why the emergence of initiatives aimed at changing the world (Bornstein 2004) have become even more inspiring. The examples of entrepreneurs who look for and design solutions for unmet social needs, and whose primary intention is to help others, are a source of hope in markets where traditional forms of capitalism are concerned with rebuilding their own reputation and legitimacy (Pless 2012). SE arises to tackle social challenges and to respond to them when the market and the public sector do not. This concept is well explained by Santos (2012), who points out the specificities of SE as opposed to traditional forms of entrepreneurship, referring to the dichotomy of value creation and value capture. The former refers to the creation of a strong and important impact for society in general, while the latter concerns the appropriation of a substantial portion of the value created with the aim of making a profit. As the author states, neither profit-oriented companies nor governments, due to a lack of resources, will systematically engage in areas and activities perceived as having a high potential for value creation but little potential for value capture (such as eradicating diseases or malnutrition in developing countries). These situations remain the domain of social entrepreneurs. Social enterprises have structural features that allow them to fill the gaps of the other parties. On the one hand, their striving for a social mission leads them to accomplish only goals that could benefit society as a whole, rather than seeking to earn profit regardless of its social impact; while on the other hand, as they fund their growth with their profits, they keep themselves independent from funders' requirements that could constrain them (e.g. the desire for venture capitalists to earn

back their investments more quickly, a foundation's requirement to have social goals reached in a specific way, or government's decreased funding in the face of budget cuts) (Masseti 2008).

### ***2.1.3 The Crisis of Traditional Business Models***

The ongoing crisis has accelerated the need for rethinking the respective roles of the market, the state, the third sector and the individual, and helped identify some of the values and directions in which development should move. In this context, the call for new forms of organizations that move away from the capitalist system, and bring into question the logic underlying the traditional business models, is strongly felt. The emerging need is for a "more sophisticated form of capitalism" that is in some way connected with social purpose. Social purpose is no longer just the responsibility of non-profit organizations or charity activities; rather, it has to be understood as something that emerges from the combination of economic activities and social mission, and blurs the boundaries between traditionally different kinds of enterprises, developing new ways of engaging with society (Porter and Kramer 2006).

These principles have been the basis for the development of new industries in which the traditional way of doing business is substantially redrafted. Among the main examples, microfinance is of course worth mentioning. This concept refers to the pioneering idea of Nobel Prize winner Muhammad Yunus of creating ways to grant funds to those who are typically not served by commercial banks. Formal financial institutions are indeed not designed to help people who do not already have financial assets. This is mostly because large loans allow banks to make more money compared to small loans, and the same goes for savings accounts. In this way poor people are omitted from traditional financial services and have to adopt informal savings mechanisms, with the serious limitations that they imply.

Microfinance consists of supplying loans, savings and other basic financial services to the poor. Its core idea is that low-income individuals are capable of lifting themselves out of poverty if given access to financial services. Although credit unions and lending cooperatives have been around for years, the ground-breaking example of modern microfinance is the Grameen Bank, a microfinance organization and community development bank founded in Bangladesh by Muhammad Yunus in 1983. The Grameen Bank serves 5.8 million borrowers, 96 % of whom are women, representing as many families. The borrowers own the bank, which lends over half a billion dollars a year in loans averaging USD \$120, without any collateral or legal instruments. The bank lends for income-generating purposes, for housing, and for the higher education of the children of the borrowers; it also lends to beggars without interest. Its deposit base is larger than the loans outstanding (Yunus 2003). It is important to note that the bank is not in the red: 98 % of loans are repaid. Moreover, the bank collects deposits, provides other services, and manages several economic activities aimed at fostering development.

These kinds of innovative businesses are those that best meet the current situation that has emerged. Social enterprises have new ways of organizing work through the involvement of different partners and several categories of actors: salaried workers, volunteers, users, support organizations and local public authorities are often partners in the same project. Not only does this revolutionize the production process; it also transforms the way in which the activity is organized, which in some cases is a kind of joint construction of supply and demand where providers and users cooperate in the organization and management of certain proximity services (Defourny and Nyssens 2013).

### 2.1.4 The Social Orientation

At the beginning of the 20th century, the main problem for entrepreneurs was how to produce. In this phase their focus was on production and required technical equipment, and firms were indeed defined as *production-oriented*. The years after World War II were the basis for the subsequent economic boom, with the rise and development of new firms in every sector. At that point firms that wanted to survive and achieve success became *market-oriented*, as they could not ignore the market and meet its needs in a careful and precise way. Afterward, the practices of adopting proactive behaviour, paying attention to trends, and changing place to be able to anticipate and in some ways address those needs, became an urge. Together with the growing difficulty in acquiring customers' spending capacity, this aspect was an imperative that required the *marketing-oriented* adaptation of firms' strategies and philosophies. During the 1960s and the early 1970s the slow industrialization together with the impact that it had on environment, the economic crisis and the associated high social tensions, the growing dynamicity, and the sudden and significant changes that affected environmental contests, led firms to a highly important realization: they could not concentrate only on the market and customers, but they also had to address the environment in its general sense and create relationships of trust with all the stakeholders. This rediscovery of the ethical aspects of production, and a parallel pressure on firms to adopt socially responsible behaviours, led to the *social orientation* that is currently predominant. Also, the development of communication technologies and the consequent increased access to information helped people to become aware of social issues and of the ability of their behaviour as consumers to apply pressure to private enterprises for the adoption of more responsible business practices.

The orientation towards social issues occurs mainly along three dimensions (Euricse 2013). The first one concerns the behaviour of the individual. People have become more aware of the impact that their consumer behaviour can have on the social outcomes they care about. This consumer empowerment involves easily acquiring information on how the goods one buys are produced, and organizing collective action in order to put pressure on producers and regulators. The rise of so-called responsible consumption is based on the importance of social and



environmental implications of production as key elements to drive purchasing behaviours. As a result, it is no longer a matter of price and quality; rather, consumers tend to reward products that meet ethical standards or have an impact on local development.

A second dimension concerns savings and finance as another side of socially responsible consumer behaviour that is not limited to the purchase of goods and services, but extends to interest in where to invest money and what is being done with savings. The internet has engendered the development of many forms of social investment, and allows people to directly support the projects or organizations of their choice.<sup>1</sup> This trend is reflected in the whole financial service sector, where the recent development of new vehicles and metrics to evaluate investment opportunities based on social and environmental impact in addition to financial returns is evidence of the efforts made in applying investment models to solve social needs.

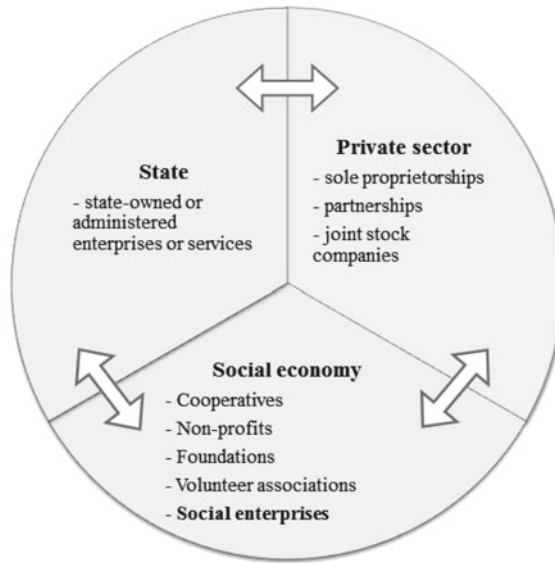
Finally, the third dimension concerns corporate behaviour and the strengthening of CSR as a voluntary inclusion of ethical standards within the practices of conventional businesses that do not have an explicit social mission. Social attention within corporate strategies can take on different forms that range from pure philanthropy, where a business donates part of its profits; directly or through foundations, to other organizations that address social goals; to double and triple bottom line approaches, where the goal is to maximize social and environmental outcomes along with shareholder return. As the social orientation of consumers has grown in relation to these three perspectives, a shift is occurring from CSR to more structured forms of shared value creation (Porter and Kramer 2006), where the engagement with society is deeper as it becomes the core mission of the organizations.

### ***2.1.5 The Development of Social Economy***

The variables described above have played a significant role in determining the appropriate context in which the phenomenon of social economy has been born. Social economy is described as an entrepreneurial, not-for-profit sector that seeks to enhance the social, economic and environmental conditions of communities (Restakis 2006). The term is often confused with social market economy. While similar in name, they refer to two quite different political and economic concepts. Social economy is used to define a specific part of the economy that works alongside the market and the state (see Fig. 2.2): a set of organizations that primarily pursue social aims and are characterized by participative governance systems.

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<sup>1</sup> An important example in recent years is the rise of crowdfunding as a way of directly mobilizing financial resources for the most disparate ventures. The term refers to the practice of funding a project or venture by raising many small amounts of money from a large number of people, typically via the internet.



**Fig. 2.2** The place of social economy [It is important to note that while the three areas are certainly distinct and the institutions within them operate on different economic principles, they are not hermetically sealed off from each other. There are several transfers and borrowings from one to the other and certain organizations operate at the boundaries of these distinctions. Universities might be placed at the borders of the public and private sectors. So might public/private partnerships. And some non-profit/private partnerships could be placed at the borders of the social economy and the private sector (Restakis 2006)]. Adapted by Restakis (2006)

The term “social market economy” instead refers to a political-economic model created after World War II to harmonize the principle of social security by giving the state an active role in promoting both market competition and balanced social development. Two main pillars of state action represent the base of the social market economy: on the one hand, competition has to be enforced to keep prices stable and generate growth and innovation; while on the other, social policy measures must foresee negative outcomes and ensure social protection. These principles, at first strongly embedded across Europe, were gradually changed by new actors and behaviours that have brought about a richer and more complex economic ecosystem, in which the state can no longer be seen as the only possible provider of social services.

In its historical roots, social economy is linked to popular associations and cooperatives whose systems of values and principles of conduct are reflected in the modern meaning of the concept. This is because these forms are inter-linked expressions of a single impulse: the response of the most vulnerable and defenceless social groups, through self-help organizations, to the new living conditions created by the development of industrial society in the 18th and 19th centuries (Castellano 2003). Although charity and mutual assistance organizations

had a considerable growth throughout the Middle Ages, working classes' initiatives during the 19th century gave to popular associations, cooperatives and mutual societies an extraordinary impetus (Chaves and Monzón 2012).

## 2.2 The Actors of Social Economy

Organizations falling within the concept of social economy are animated by the principle of reciprocity for the pursuit of mutual economic or social goals, often through the social control of capital. The overall aim of their activities does not emphasize the pursuit of profit and its distribution to the owners as an ultimate goal. Instead, the main objectives for which these organizations strive include the provision of goods and services to their members or community and the pursuit of general interest goals. Fulfilling this kind of purpose means, for instance, that these organizations tend to preserve employment and quality of service to their members and customers even at the cost of reducing their margin of profit. Another feature shared by many social economy organizations is their ownership structure. In these organizations indeed ownership rights are assigned to stakeholders other than investors (e.g. workers, customers, volunteers), and their involvement and participation are highly valued. Voluntary work is another element that characterizes social economy organizations, as well as democratic decision-making processes, whereby decisions concerning the organization are voted upon by all of its members. Included organizations share the aforementioned features, but can be notably different among each other and, within the same category, also vary considerably from one country to another.

Generally it is possible to identify four groups of social economy organizations. Social cooperatives are member-owned organizations that abide by the principles of democracy and solidarity and are focused on social value creation. Their main aim is providing answers to the needs of the community or some vulnerable group in the community. Social cooperatives first appeared in 1991, when the Italian parliament adopted a law that established them as member-owned organizations operating with the purpose of creating social value for communities (Carini and Costa 2013). According to this law, social cooperatives can be involved in either caring or training activities. Caring activities (type A) refer to social, healthcare, educational and cultural services, as well as nurseries and initiatives aimed at environmental protection. Training activities (type B) involve all those initiatives that aim to provide job-placement services for disadvantaged people (Thomas 2004).

A second group are mutual societies, or mutuals, which are autonomous associations of persons united voluntarily for the primary purpose of satisfying their common needs in the insurance, providence, health and banking sectors, and whose activities are subject to competition (Chaves and Monzón 2012). Unlike cooperatives, whose capital is represented by shares, mutual funds are owned and managed jointly and indivisibly. To join the mutual society, future members have to pay for the services provided without buying a share in the capital or paying membership costs.

A third type is the association, which is a lasting organization for a particular purpose that can be cultural as well as recreational, social or economic in nature, which in the end seeks to meet the general interests of society. Usually, an association provides services to its members, to other people (often specific categories of people, e.g. Save the Children), or to the community as a whole (e.g. Greenpeace). Associations can be formal, with rules, by-laws and membership requirements, or they can be an informal collection of people without a set structure.

Finally, foundations are organizations that involve the use of an endowment or systematic fundraising activities, and are managed by legal entities created to accomplish specific goals for the benefit of a specific group of people or of the community as a whole. The use of the endowment is thus linked to the achievement of the statutory purposes. These organizations are above all committed to promoting social, religious and educational activities according to the funder's will. The way in which the endowment is used distinguishes operating foundations from grant-making foundations. The former are equipped with one or more structures (e.g. care homes, libraries, research centres) aimed at the fulfilment of their mission, providing goods and services of general interest, usually working in the fields of the arts, culture, social care and health. In the latter case no activities are carried out by the foundations; rather, they dispense grants and contributions to other entities, generally non-profit organizations, who with the received resources can provide goods and services to society. Examples of this category are corporate foundations, private entities that derive their funds primarily from the contributions of a profit-making business.

In 2012, the European Economic and Social Committee tried to map the social economy phenomenon across European countries, considering the aforementioned groups. Table 2.1 summarizes what emerged from the survey, illustrating the extent of the phenomenon.

What is evidenced by this data is a predominance of associations and foundations compared to the other analysed categories. The countries with the most entities are the United Kingdom (870,000) and Germany (505,984). Italy is the country with the highest number of cooperatives (71,578), followed by France and (24,870) and Poland (8,823). The lowest occurrence is in Luxembourg (56), Malta (57) and Latvia (74), in keeping with the smaller dimensions of these countries. As for mutual organizations, the number of entities is almost always less than 100, with some exceptions like France (6,743), Romania (897), Germany (328), the Netherlands (124) and Finland (106).

The aforementioned groups are just a way to simplify the variegated landscape of organizations that fall within the social economy. Actually social economy organizations can often adopt a mixture of organizational forms. They can be, for example, voluntary associations that control a foundation, or foundations that control associations or other organizations. Sometimes social economy organizations can even adopt enterprise forms that typically belong to the for-profit sector.

According to the European Economic and Social Committee, social economy organizations fall into two major sub-sectors: (a) the market or business sub-sector, and (b) the non-market producer sub-sector. Some features are shared by both

**Table 2.1** The social economy in Europe. Adapted by Chaves and Monzón (2012)

	Cooperatives and other similar accepted forms	Mutual companies and other similar accepted forms	Associations, foundations and other similar accepted forms
Austria	1860 enterprises	59 entities	116,556 entities
	61,999 jobs	1416 jobs	170,113 jobs
	3,015,614 members		4,670,000 volunteers
Belgium	166 enterprises	26 enterprises	18,461 entities
	13,547 jobs	11,974 jobs	437,020 jobs
	2,670,000 members		
Bulgaria	2,016 enterprises	11 entities	22,315 entities
	41,300 jobs	12,525 members	80,000 jobs
	425,000 members		1,459,000 members
Cyprus	620 enterprises	n.a.	3516 entities
	5067 jobs		
	1,275,993 members		
Czech Republic	3085 enterprises	7 entities	98,693 entities
	58,178 jobs	5679 jobs	96,229 jobs
	754,697 members		
Denmark	523 enterprises	53 entities	12,877 entities
	70,757 jobs	4072 jobs	120,657 jobs
	1,840,803 members		
Estonia	1604 enterprises	n.a.	32,000 entities
	9850 jobs		28,000 jobs
	410,000 members		
Finland	4,384 enterprises	106 entities	130,000 entities
	94,100 jobs	8,500 jobs	84,600 jobs
	3,865,400 members		
France	24,870 enterprises	6,743 entities	160,844 entities
	320,822 jobs	128,710 jobs	1,869,012 jobs
	24,000,000 members	20,000,000 members	14,000,000 volunteers
Germany	7,415 enterprises	328 entities	505,984 entities
	830,258 jobs	86,497 jobs	1,541,829 jobs
	20,509,973 members		3,000,000 volunteers
Greece	7197 enterprises	11 entities	50,600 entities
	14,983 jobs	1140 jobs	101,000 jobs
	1,052,785 members	180,000 members	1,500,000 members
Hungary	2769 entities	13 entities	58,242 entities
	85,682 jobs	6,676 jobs	85,852 jobs
	547,000 members		
Ireland	509 enterprises	100 entities	25,000 entities
	43,328 jobs	650 jobs	54,757 jobs
	152,000 members		1,570,408 volunteers

(continued)

**Table 2.1** (continued)

	Cooperatives and other similar accepted forms	Mutual companies and other similar accepted forms	Associations, foundations and other similar accepted forms
Italy	71,578 enterprises	n.a.	26,121 entities
	1,128,381 jobs		1,099,629 jobs
	12,293,202 members		899,309 volunteers
Latvia	74 enterprises	n.a.	n.a.
	440 jobs		
	17,330 members		
Lithuania	490 enterprises	n.a.	22,000 entities
	8971 jobs		
	221,858 members		
Luxembourg	56 enterprises	n.a.	664 entities
	1,933 jobs		14,181 jobs
	5203 members		
Malta	57 enterprises	n.a.	693 members
	250 jobs		1427 jobs
	5663 members		7,058 volunteers
The Netherlands	677 enterprises	124 entities	60,000 entities
	184,053 jobs	2860 jobs	699,121 jobs
	3,249,000 members		
Poland	8823 enterprises	22 entities	86,100 entities
	400,000 jobs	2800 jobs	190,000 jobs
	8,000,000 members		
Portugal	2390 enterprises	95 entities	45,543 entities
	51,391 jobs	5,500 jobs	194,207 jobs
	1,353,107 members	1,100,000 members	
Romania	1,747 enterprises	897 entities	23,100 entities
	34,373 jobs	18,999 jobs	109,982 jobs
	809,170 members		
Slovakia	382 enterprises	10 entities	26,210 entities
	26,090 jobs	2158 jobs	16,658 jobs
	570,845 members	57,000 members	118,623 volunteers
Slovenia	77 enterprises	3 entities	21,000 entities
	3428 jobs	476 jobs	3190 jobs
	16,903 members		
United Kingdom	5,450 enterprises	105 enterprises	870,000 entities
	236,000 jobs	50,000 jobs	1,347,000 jobs
	12,800,000 members		10,600,000 volunteers

Data from Euricse, Legacoop and Confcooperative, data on cooperatives and mutual societies only for those affiliated with these confederations (Chaves and Monzón 2012)

sectors: they are private organizations, formally organized; they have autonomy of decision and freedom of membership, and are democratic. Also, any distribution of profits is not proportional to the capital or the fees contributed by the members, because even if they work *with* capital they do not work *for* capital but for the achievement of social change. The difference among the sectors lies in the market orientation of first sector, as they are market producers and their output is mainly intended for sale on the market at economically significant prices. In this context social enterprises are a clear example of a hybrid of market and non-market, with a wide diversity of resources (revenue from the market, public subsidies and voluntary work) and of agents within the organization (members, employees, volunteers, companies and public bodies).

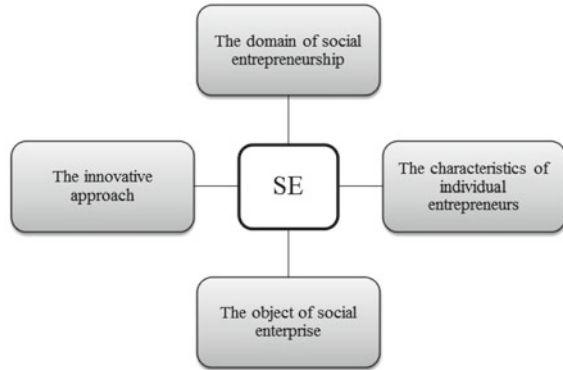
Both within and alongside the universe of social economy organizations, social enterprises have emerged in recent years as a new and very significant worldwide phenomenon. Despite the lack of a universal definition, the term is increasingly used to identify a different way of doing business, which occurs when enterprises are created specifically to pursue social goals. What distinguishes social enterprises from traditional social economy organizations is the fact that a substantial proportion of their income should come through trading, rather than being dependent on grants or donations. A benchmark sometimes used for a social enterprise is that at least 50 % of its turnover is earned income, although opinions vary on what the best threshold would be. The underlying principle is that social enterprises have a primary social purpose, and the majority of any profit is reinvested or otherwise used to achieve the social mission of the enterprise.

## 2.3 A Theoretical Approach to Social Entrepreneurship

Although the concept of SE is gaining popularity among academics, what emerges from a literature analysis is a lack of consensus about what SE really is; in spite of the great number of publications aimed at gaining a better understanding of this phenomenon, it still means “different things to different people” (Dees 1998, p. 1). The literature on this topic has grown in significance over the last two decades. Kraus et al. (2013) developed an exploratory citation analysis of research on SE and the results show that, particularly in 2009 and 2010, the number of empirical research articles published rose significantly.

Of course SE is a complex phenomenon, and definitions are hardly able to capture the whole picture. Problems with univocally defining the concept also depend on the fact that these entities vary greatly according to the geographical context, and that countries recognize SE differently. At any rate, it is essential to begin by being clear about what SE is, and this is a purpose that has been widely pursued. The fact that scholars have not yet reached a general definition is partly due to the newness of the topic, as well as to the difficulty of drawing demarcation lines between SE and other fields such as commercial entrepreneurship and business management.

**Fig. 2.3** Grouping definitions of SE



With such an unclear theoretical background is not surprising that sometimes even the terminology is an issue. For example, the terms “social entrepreneurship”, “social enterprise”, “social entrepreneur” and “social innovation” are sometimes used interchangeably, and are sometimes distinguished from one another. As this has been and will continue to be a source of confusion, it is important to underline the differences among the concepts. Definitions of social entrepreneurship typically refer to a process or behaviour, while definitions of social entrepreneurs focus instead on the founder of the initiative; and definitions of social enterprise refer to the tangible outcome of SE. These concepts are themselves different from the concept of social innovation that somehow includes them, as it refers to a process that aims to make a change at the systemic level (Westley and Antadze 2010).

As shown in Fig. 2.3, the analysis of the theoretical background of SE is here proposed using four variables according to which its definitions could be grouped: (1) the domain of social entrepreneurship, (2) the characteristics of individual social entrepreneurs, (3) the object of social enterprises, and (4) the innovative approach. In the following sections each of these aspects will be analysed and described according to their main issues and contributions.

### ***2.3.1 The Domain of Social Entrepreneurship***

The identification of a proper domain of SE is an important issue for scholars. Researchers do not agree on the field into which social enterprises fall, the for-profit or the non-profit sector, and this lead to conceptualizations of SE that are completely different from each other. The reasonableness of the debate lies in the fact that both approaches have advantages and disadvantages. As SE is still an evolving field of practice, it might be preferable not to narrowly define it, so as to avoid the risk of excluding initiatives that might need to be considered within the concept of SE, even



if they do not meet all of the essential features. However, it is not completely correct to overly dilute the concept, as this may create confusion about how best to identify the phenomenon. The risk is indeed that the term could become very inclusive and thus represent an immense tent into which all kinds of socially beneficial activities fit.

Those who adopt a narrower approach define social enterprises as non-profit initiatives aimed at searching for alternative funding strategies based on the application of business expertise and market-based skills traditionally not related to the non-profit sector (Reis 1999; Thompson 2002). There is a large body of literature that locates the concept of SE within the world of non-profit organizations. For example, a survey of the appearance of the term “social entrepreneurship” in scholarly and non-scholarly publications over a 19-year period (1980–1999) suggested that 83 % of press references to SE cited examples from the non-profit sector. This appears to have been decisive in encouraging the authors of the survey to infer that SE is overwhelmingly a non-profit sector phenomenon (Taylor et al. 2000). Non-profit organizations may be interested in using managerial practices and behaviours because the environment within which they operate is rapidly changing due to increasing globalization, growing needs in their target communities, and a generally tighter funding environment with growing competition for donors and grants. This has led non-profit organizations to adopt a competitive position in their operations and to pursue innovative ways of delivering superior value to the target market and capturing competitive advantage. Furthermore, there is increasing interest from these organizations in searching for ways to avoid welfare dependency in program participants. As a consequence, non-profit organizations aspiring to achieve a competitive advantage must adopt an entrepreneurial view in their key decisions and build and nurture distinctive capabilities (Mort et al. 2003).

There is a branch of literature, however, for which SE is intended as innovative activities with a social objective that can also be developed by for-profits relying on commercial capital and concerned with financial returns (Mair and Marti 2006; Perrini 2007). From this perspective the central driver of SE is the social problem being addressed, and the legal form a social enterprise takes should be a decision based on the format that would most effectively mobilize the resources needed (Austin et al. 2006). In this wide view, SE is considered a new field of study rather than an advancement in the non-profit sector, the land of those innovators who contribute to social change with creativity and innovation (Perrini and Vurro 2006). The decision about which legal form to adopt depends on the single social entrepreneur and his perception of the one that could best suit his situation, but is a secondary concern (Dees and Anderson 2006). This inclusive definition of SE (Light 2009a) comprehends for-profit and non-profit organizations as well as some government initiatives, but it excludes those entities that exist only to provide social services and groups formed to engage in social activism (Swanson and Zhang 2010). Leadbeater (1997) conceptualized SE as the point of intersection between any two, or all three, sectors: public, private and voluntary.

Table 2.2 lists some examples of broad and narrow definitions.

**Table 2.2** Examples of broad and narrow definitions

Perspective	Authors (Year)	Definition
Broad	OECD (1999)	Any private activity conducted in the public interest, organized with an entrepreneurial strategy but whose purpose is not the maximization of profit but attainment of certain economic and social goals
	Nicholls (2005)	SE may be defined as a professional, innovative, and sustainable approach to systemic change that resolves social market failures and grasps opportunities. Social entrepreneurs engage with a wide range of business and organizational models, both not-for- and for-profit, but the success of their activities is measured first and foremost by their social impact
	Haugh (2005)	Social enterprise is a collective term for a range of organizations that trade for a social purpose. They adopt one of a variety of different legal formats but have in common the principles of pursuing business-led solutions to achieve social aims, and the reinvestment of surplus for community benefit
	Mair and Marti (2006)	SE as innovative, social value creating activity that can occur within or across the non-profit, business or government sector
Narrow	Evans et al. (2001)	Social enterprises are not-for-profit organizations, which seek to meet social aims by engaging in economic and trading activities
	Mort et al. (2003)	As a special category of NGOs, social enterprises are not-for-profit organizations driven by a social mission
	Dart (2004)	SE differs from the traditional understanding of the non-profit organization in terms of strategy, structure, norms, values, and represents a radical innovation in the non-profit sector
	Simonov et al. (2014)	SE is innovative form of non-profit sector

**2.3.2 Characteristics of Individual Entrepreneurs**

A consistent branch of research is focused on the personality of social entrepreneurs. One of the reasons why many contributions focus on the features that best describe social entrepreneurs is that since SE is mission-related and internal values and motivation largely drive the venture (Hemingway 2005), it can be expected that the people involved will have specific skills and attitudes. Furthermore, defining SE is logically linked with defining social entrepreneurs in that entrepreneurship is what comes out from entrepreneurs’ activities (Peredo and McLean 2006).

The main issue within this branch of research concerns the possibility of finding a common set of features that typically refer to social entrepreneurs. In doing so, scholars refer to the long tradition of studies on the personalities of entrepreneurs. Among its first delineations, the term “entrepreneur” appeared in economics as early as the 17th and 18th centuries, to define someone who undertakes a significant project or activity. Thus, being an entrepreneur involves much more than just starting a business. More specifically, the term came to be used to identify the

venturesome individuals who stimulated economic progress by finding new and better ways of doing things (Dees 1998). The authors most commonly credited with giving it this particular meaning are Say and Schumpeter. Say (1803) described an entrepreneur as a person who shifts economic resources out of an area of lower productivity into an area of higher productivity and greater yield. On the same path, Schumpeter (1934) saw entrepreneurs as innovators who drive the creative-destructive process of capitalism—the change agents in the economy who move it forward to serve new markets, or who create new ways of doing things. Along the Say-Schumpeter lines of thinking, many contemporary authors have enriched the definition of the concept. An example is Drucker (1995), who took the notion of “opportunity” as central in defining the role of entrepreneurs: they have a mindset that sees the possibilities rather than the problems created by change. Stevenson and Jarillo (1990) added an element of resourcefulness to the definition. He suggested defining the heart of entrepreneurial management as the pursuit of opportunity without regard to the resources currently controlled. All these definitions encompass a much wider scope than the concept of business start-ups.

The definition of social entrepreneur is largely drawn from these studies. According to Zamagni (2006), social entrepreneurs are those individuals who have entrepreneurial virtues and follow market rules without aiming to achieve economic goals such as profit; rather, they strive to meet collective interests. Authors like Dees (1998), Drayton (2002) started from the aforementioned studies to prove the uniqueness of social entrepreneurs. They applied the entrepreneurial mindset to the pursuit of a social mission that leads to some distinctive challenges that ought to be reflected in the definitions. For this reason, their work is aimed at identifying the features that make social entrepreneurs a special breed of leaders (Dees 1998).

Many other authors have also focused their attention on defining the characteristics of social entrepreneurs, questioning for example whether they have special leadership skills (Thompson et al. 2000), greater passion to realize their vision (Bornstein 1998), or special charisma (Roper and Cheney 2005).

Table 2.3 shows a sample of definitions and traits that emerged in the literature review as belonging to social entrepreneurs.

Other authors find the definitions of Say, Schumpeter, Drucker, and Stevenson useful because they can be easily applied in the social as well as the business sector. Emphasizing how the entrepreneurial profile they describe can be manifested anywhere, they propose the assimilation of social entrepreneurs with traditional ones. Massetti (2008), for example, listed the main definitions of social entrepreneurs and pointed out how efforts to distinguish them from traditional entrepreneurs have led to findings of many more similarities than differences. As she stated, the evidence indicates that all entrepreneurs are passionate, driven individuals who believe that their ideas will make the world a better place, regardless of whether they receive the title of “social” entrepreneurs or not. An example she cites is that of Howard Schultz of Starbucks Coffee Company, who possesses many of the traits that social entrepreneurs are believed to have. He is a passionate, socially conscious individual who has based his coffee business on offering people a sense of community, comfort, and extended family. He is also the first entrepreneur in the US to

**Table 2.3** Examples of definitions and traits of social entrepreneurs

Author (Year)	Definition of social entrepreneur	Traits
Drayton (2002)	Social entrepreneurs see something in society that is stuck, that is not working, and envision a systemic change that will allow them to shift society to a new and better way. They have a drive that will not stop until it is done	1. Possession of a powerful new system-changing idea
		2. Creativity
		3. Entrepreneurial spirit to drive change across society
		4. Strong ethical fibre
Mort et al. (2003)	Those who are driven by the social mission of creating better social value than their competitors which results in their displaying entrepreneurially virtuous behaviour	1. Balanced judgement
		2. A coherent unity of purpose and action in the face of stakeholder complexity
		3. Create better social value for clients
		4. Innovative
		5. Proactive
		6. Risk-taking propensity
		7. Passion
Roberts and Woods (2005)	SE is the construction, evaluation, and pursuit of opportunities for transformative social change carried out by visionary, passionately dedicated individuals	1. Passion
		2. Dogged persistence
		3. Creativity
		4. See things differently
		5. Recognize the importance of thinking like a business
Hartigan (2006)	Entrepreneurs whose work is aimed at progressive social transformation	1. Capacity to envisage what does not exist and make it happen
		2. Innovative
		3. Resourceful
		4. Opportunity aware
Light (2009b)	Social entrepreneurs are creating innovative ways of tackling some of our most pressing and intractable social problems [...]. They take under-utilized and often discarded resources—people and building—and re-energize them by finding new ways to use them to satisfy unmet and often unrecognized needs	1. Entrepreneurial
		2. Innovative
		3. Transformatory
		4. Leader
		5. Storyteller
		6. People manager
		7. Visionary opportunist
		8. Alliance builder

provide stock options and healthcare access to part-time employees. Yet, he is commonly considered a well-intentioned, successful traditional entrepreneur, even if it is possible to affirm that he has all the traits traditionally recognized as belonging to social entrepreneurs.

From this perspective it does not appear that there is a distinguishing set of traits that delineate social from traditional entrepreneurs. What can be considered as the differentiating factor appears to be the nature of the mission that entrepreneurs select for their business: social entrepreneurs focus more on social concerns, while traditional entrepreneurs focus more on market-oriented ones. Nevertheless, both seek profit to drive their businesses forward and both seek to make important changes in the marketplace.

### ***2.3.3 The Object of Social Enterprises***

Defining the proper object of social enterprises is not easy because of their hybrid nature, in which elements from different fields are combined. The trend of identifying the boundaries of this phenomenon mainly consists of describing SE by underlining what it is not—those elements that differentiate this phenomenon from other well-known ones. However, even if a consensus on the boundaries of SE is difficult to find, the need to define them is strongly felt among scholars, so as to delimit their scope and clarify whether this really is an independent field of research (Swanson and Zhang 2010; Dacin et al. 2010).

The search for the object of these entities finds a certain accord among scholars, as opposed to the domain or the specificities of social entrepreneurs, on which different perspectives exist. Common across the definitions is the fact that the underlying drive of social enterprises is to create social value rather than personal and shareholder wealth. The disagreement is about the level of importance social entrepreneurs should place on the social mission. For example, the social mission may be the major focus of an organization, or profit may be the major motive of an organization that happens to provide some social product or service (Alter 2006). Some argue that having both social and economic value is important for social entrepreneurs (Emerson and Twersky 1996), while others suggest that economic value should be a limited concern for social entrepreneurs and the social mission must be central (Seelos and Mair 2007).

What emerges is that despite the different meanings this concept has in the definitions of SE, it is a feature that is always present in scholars' attempts to describe this phenomenon.

Table 2.4 lists some examples of definitions where the key role of social mission in defining SE emerges.

**Table 2.4** Examples of definitions focusing on the key role of social mission

Author(s)	Year	Definition
Zadek and Thake	1997	The underlying drive for SE is to create social value, rather than personal and shareholder wealth [...] The central driver for SE is the social problem being addressed, and the particular organizational form a social enterprise takes should be a decision based on which format would most effectively mobilize the resources needed
Alvord et al.	2004	SE creates innovative solutions to immediate social problems and mobilizes the ideas, capacities, resources and social arrangements required for sustainable social transformations
Hibbert et al.	2005	SE can be loosely defined as the use of entrepreneurial behaviours for social ends rather than for profit objectives, or alternatively, that the profits generated are used for the benefit of a specific disadvantaged group
Korosec and Berman	2006	SE is included in the process of individuals or of the private organizations that have the initiative to identify and solve social problems in order to develop new ways of solving social problems
Tracey and Jarvis	2007	The notion of trading for a social purpose is at the core of SE, requiring that social entrepreneurs identify and exploit market opportunities, and assemble the necessary resources, in order to develop products and/or services that allow them to generate “entrepreneurial profit” for a given social project

### 2.3.4 *The Innovative Approach*

The innovative approach that social entrepreneurs take when striving for social outcomes is a further element that is generally accepted by scholars as a common feature of social enterprises. Social entrepreneurs are described as those who involve “pattern-breaking” (Light 2006) or “innovative solutions” (Ashoka 2011) and are thus “change agents” (Schwab Foundation 2011) in society, rather than simple replicators of existing enterprises or practices (Austin et al. 2006).

Even in this case, the term “innovativeness” has different meanings. It could refer to products and services or processes, but also to innovative ways of delivering and promoting products and services, or to the innovative target addressed.

Table 2.5 lists some of the most important definitions in which the concept of innovation is highlighted.

The explicit role of innovation recalled in the definitions listed in Table X is consistent with the Schumpeterian view of entrepreneurship which, as aforementioned, emphasizes the role of innovation in entrepreneurship. However, as Schumpeter notes, innovation can take many forms. It does not require inventing something that is completely new; it can simply involve applying an existing idea in a new way or to a new situation. From this perspective entrepreneurs do not need to be inventors; they need to be creative in applying what others have already invented. Their innovations may appear in how they structure their core programs

**Table 2.5** The role of innovation in defining SE

Author(s)	Year	Definition
Zadek and Thake	1997	The underlying drive for SE is [...] that the activity is characterized by innovation, or the creation of something new rather than simply the replication of existing enterprises or practices
Austin et al.	2006	[SE] is innovative, social value creating activity that can occur within or across the non-profit, business, or government sectors
Light	2006	A social entrepreneur is an individual, group, network, organization, or alliance of organizations that seeks sustainable, large-scale change through pattern-breaking ideas in what or how governments, non-profit and business do to address significant social problems
Hartigan	2006	SE follows the transformation of entrepreneurship in a progressive way. This definition involves entirely new models, innovative, ingenious ones based on identifying opportunities
Tracey and Jarvis	2007	SE is the way of using resources to create benefits for the society and the SEur is the person who seeks to benefit society through innovation and risk-taking
OECD	2010	SE and social innovation [...] aim to provide innovative solutions to unsolved social problems, putting social value creation at the heart of their mission in order to improve individuals' and communities' lives and increase their well-being

or in how they assemble their resources and fund their work. On the funding side, social entrepreneurs look for innovative ways to ensure that their ventures will have access to resources as long as they are creating social value. This willingness to innovate is part of the *modus operandi* of entrepreneurs as a continuous process of exploring, learning, and improving (Dees 1998).

Innovation is also considered a key element from a narrower perspective. When SE refers to the field of non-profit organizations, it still involves pursuing the path of innovation. In this case innovation is intended as a knowledge acquisition and integration process in which social enterprises learn from market changes, and involves monitoring changes in client preferences and competitor actions (Mort 2002). In their acquisition of profit-making skills and strategies, social enterprises within the non-profit sector indeed have an innovative approach.

## 2.4 Social Entrepreneurship Across Countries

The considerable debate on how to univocally define the phenomenon of SE has been considerably nurtured by the existing differences among definitions and concepts, as identified in regions around the world. The question of how the context in which it takes place can shape the development of a social enterprise and result in the identification of several elements in a country that can affect it. These elements mostly refer to specific socio-economic conditions (Kerlin 2009), existing institutions that

can influence the growth of the non-profit sector (Salamon and Sokolowski 2010), and national trends in entrepreneurship that are connected with government and society (Bosma and Levie 2010). In particular, the state plays a key role in influencing the model of social enterprise. This is because the development of SE is influenced by the economic situation and civil society, which are in turn shaped by the state as a mix of culture, hierarchies, and political-economic histories (Kerlin 2013).

National influences may also have an impact on individual entrepreneurial decisions. Estrin et al. (2013) analysed the relation between social and commercial entrepreneurship, and theorized about national institutions that facilitate the emergence of both. They argue that the national prevalence rate of SE in a country positively influences the likelihood that individuals in that country will undertake commercial activity. Also, the quality of the institutional framework of a country equally influences social and commercial start-ups, while government activism has a negative influence, which is more marked for commercial than for social enterprises.

Analysing how SE is shaped within different contexts is important in that it allows us to identify macro-trends and make general statements about, for example, the likelihood of social enterprises taking place in a particular region, and the features of these enterprises. Mostly, literature on social enterprise in relation to places focuses on single-country or regional analysis, and/or case studies, rather than a global comparison (Bagnoli and Megali 2011; Grieco 2014). Important exceptions come from the work of the Global Entrepreneurship Monitor (GEM). The GEM research is carried out every year with the explicit objective to facilitate cross-country comparisons of entrepreneurial activity by surveying representative population samples of at least 2000 randomly selected adults in the participating countries. In 2009, additional questions were included to assess the entity of social entrepreneurial activities within the analysed sample. With more than 150,000 individuals in 49 countries, this report produces unique insights, as it represents the first global and harmonized assessment of this phenomenon. The whole sample was asked about the current or potential involvement in any kind of activity, organization or initiative that has a particularly social, environmental or community objective. Those who answered positively numbered 8774 (less than 5 % of the whole sample), almost equally divided into actual owners and potential start-ups of social enterprises. Afterwards, a series of follow-up questions was administered to both groups in order to gauge the extent of innovation, reliance on market-based revenues and importance attached to societal objectives.

This research provides data on how social enterprises are established at a worldwide level. What emerges is that social entrepreneurs are still a rare breed. The average rate of SE activities across all 49 countries in the sample is 1.9 % (ranging from 0.2 to 4.9 %). It has to be considered, however, that these results refer to 2009, while more recent years have seen a great development of SE, both in terms of literature on the topic and structured organizations. Concerning the relation between social enterprises and places, the authors suggest grouping countries by stage of development, adopting an unusual distinction between factor-driven countries, efficiency-based countries and innovation-driven countries. The first group refers to those economies that are based on the exploitation of natural

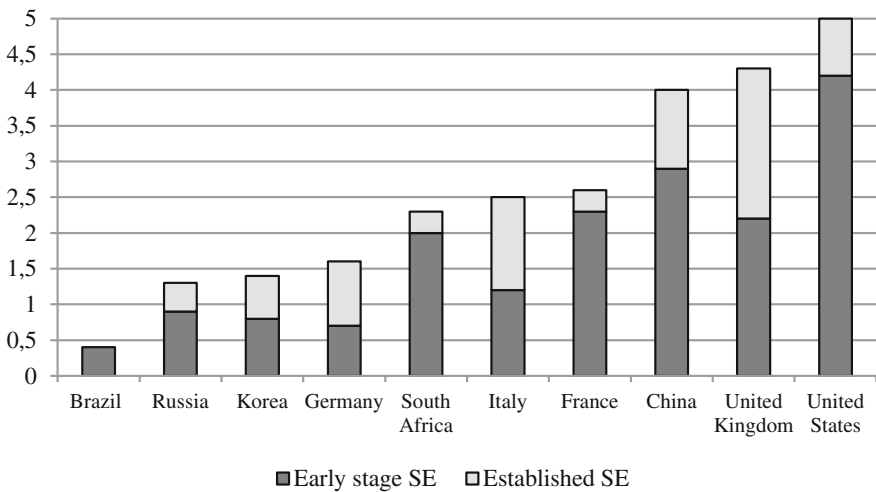


resources, the second comprises those economies mostly based on large-scale manufacturing, while third group includes those economies that are based on services and innovation. According to this classification, even if the average number of SE activities is similar for the three groups of countries, the rate seems to increase slightly with economic development (factor-driven: 1.5; efficiency-based: 2.0; innovation-based: 2.1). This may indicate that the opportunity-cost of SE is higher in developing countries, because other goals related to fundamental self-interests need to be satisfied first (Lepoutre et al. 2013).

This study reveals that in most countries the majority of social enterprises are at an early stage of development (under 42 months), with the exception of Italy and Germany, where the rate of early-stage and established social enterprises is the same (OECD 2013), (see Fig. 2.4).

Again, it has to be considered that this data refers to 2009, and that important growth is still happening; thus it is reasonable to presume that the highlighted trends would be different if the same study were replicated today. Nevertheless, the GEM survey is worth citing as it is among the widest studies on SE, and able to capture general trends that emerge at a worldwide level.

Several studies have focused on SE in Europe and the differences between the configuration of the phenomenon both there and in the US. Social enterprises in Europe had their first appearance with the Italian law on cooperatives in 1991. In the latter part of the decade the concept was introduced in several other European countries to reflect the entrepreneurial approaches adopted by non-profit organizations. However, differences can be seen in the ways the same term was used to refer to different types of organizations: in countries like France, Portugal, Spain and Greece there was a strong predominance of the cooperative model, while in



**Fig. 2.4** Social entrepreneurship prevalence rate as a percentage of the working age population by enterprise maturity. Adapted by Lepoutre et al. (2013)

countries like Belgium, the UK and Italy (with the law of 2006) the focus was no longer on cooperatives, but on more open models of enterprise that were adopted (Defourny and Nyssens 2013). A specific trend during the 1990s was to consider social enterprises as organizations with the purpose of including disadvantaged categories in the workforce. This type of social enterprise was indeed quite dominant across Europe, most of all in the Bismarckian countries that were the first to develop this scheme, and in countries like Finland and Poland where the laws on SE specifically refer to programs targeting the field of work integration.

The distribution of social enterprises across Europe, and the weight and focus they have, are highly variable from country to country. In Italy, for example, there is a large number of social enterprises working in several different fields. In countries like Sweden and Finland their number is considerable, but they are active in specific fields such as employment and kindergartens. Germany and Denmark, on the other hand, have a small number of social enterprises and, along with the Netherlands, are examples of countries where existing social enterprises are not clearly differentiated from public or third-sector organizations (Borzaga and Defourny 2001).

In the US, where the welfare state was comparatively weak, the emergence of social enterprises was shaped by a bottom-up approach, and a process of development was primarily fronted by a voluntary sector. In its first manifestation the debate on SE started with the use of commercial activities by non-profit organizations, a behaviour that can be traced back to the very foundation of the US, when community or religious groups sold goods to supplement voluntary donations. This behaviour gained particular importance between the 1970s and 1980s, when significant funds were addressed to education, healthcare, community development and poverty programs through the activities of non-profit organizations working in these areas, instead of public institutions. This support started to fail in the late 1970s with the downturn in the economy, prompting non-profit organizations to fill the gap in the budget through the sale of goods and services, even when this was not directly related to their mission.

A feature common to both Europe and the US is that the development of SE started around entrepreneurial behaviours with a social mission, arising primarily within the non-profit sector. Important differences, however, are traceable both in the origins and in the key actors involved. In Europe the third sector has always played a significant role in providing welfare services, and this trend took a prominent role in supporting new forms of hiring or retraining unemployed people in non-profit organizations. In the US, social enterprises emerged from a combination of decrease in public support and increase in commercial income. Also, the actors involved show important differences: while cooperatives and new forms of work integration played a key role in the development of European social enterprises, in the US the main contributions came from foundations that provided financial support and visibility for social entrepreneurs, and consultancy firms that developed a growing industry focusing on adapting business methods and strategies to the needs of these innovative non-profits (Kerlin 2006; Defourny and Nyssens 2013).

## 2.5 The Path for Future Development

The call for further research has been widely expressed in the hope of moving the field of SE study towards the next steps of development. In line with the general requests to continue investigating this topic in order to definitely establish it as an autonomous branch of research (Mair and Marti 2006; Peredo and McLean 2006; Nicholls 2006), two main paths are identifiable, both of them focused on the need to find a way to measure the phenomenon of SE.

In one sense, measuring SE means mapping social enterprises in their emergence and development across different contexts. From this perspective the need is two-fold. First, common criteria have to be identified to univocally define the concept and overcome the mismatching arising from the different meanings given to SE. As long as a general understanding of this phenomenon is lacking, severe barriers would hinder the possibility of implementing quantitative studies on social enterprises. This is indeed the second element that must be improved: in addressing the topic of SE, conceptual articles greatly outnumber empirical studies, and empirical efforts often lack formal hypotheses and rigorous methodology (Short et al. 2009). The majority of existing contributions focus on defining the concept, and this has of course been very useful in the initial stages. However, the current need is to evolve the approach and put effort into empirically investigating the phenomenon. Case study analyses comprise the majority of existing attempts at empirical study. These works have played a pivotal role in accurately and specifically giving insights into the actual behaviours of social enterprises, but they lack the ability to offer generalizable findings, keeping SE research in a developmental state.

Measuring SE also means finding a way to assess the performance of social enterprises. There is much debate on this issue, as instruments to assess the performance of for-profit organizations are not able to capture the whole picture of social enterprises, which leverage economic activities for the pursuit of a social mission and thus cannot be evaluated regardless of their ability to create social value. Social enterprises have huge potential to generate impact at the societal, environmental and economic levels, and it is essential for them to monitor and evaluate this impact. Also, as their driving mission is to solve social problems, they must be sure about the actual achievement of this mission. This is the reason why impact assessment takes on a pivotal meaning for these organizations.

The measurement of performance and consequent impact at economic, environmental and social levels are among the most important challenges for studies in the field of SE. The main issue is not the measurement itself, but the conversion of mostly qualitative data related to the achievement of a social mission into quantitative metrics. The need for identifying suitable indicators to measure social outcomes is widely felt not only in the third sector but in other sectors as well. In for-profit companies, for example, the increase in this trend is directly linked with the growing importance given to CSR activities and the consequent need for proper measuring indices. Since the concept of sustainable development was coined by the Brundtland Commission's report (1987), sustainability has been

adopted by many companies through their mission statement and strategy, which raises the issue of how to incorporate the social and environmental dimensions of sustainability in programs and projects. The same requirement is also emerging in the public sector, where efforts are limited to the health sector and, to a lesser extent, to the care sector (Zappalà and Lyons 2009).

This topic is not new for social enterprises or, more widely, for the third sector. Compared with the past, the difference stems from the new competitive context faced by these organizations, which requires proper assessment of the generated impact to improve performance and communicate the benefits in an effective manner. Assigning the right importance to social items is of relevance for non-profit organizations because some of these organizations serve their clients either without charge or with a nominal charge, and therefore the financial statements do not track the benefits created. Moreover, even non-profit organizations with earned revenues have a social mission, and therefore including social benefits in the financial statements is necessary to provide a more complete view of the overall performance (Richmond et al. 2003). Thus, focusing on financial management can be meaningless for social enterprises, as it is not a concern of their purposes and missions. The cost-revenue strategies for profit maximization do not fit with the social enterprise model, which has several bottom lines.

The concept of social impact assessment (SIA) is thus emerging, with particular urgency for social enterprises. Among the main paths for future development, the consolidation of this practice within this specific field, and the question of which definition of processes and indicators to adopt, are of great relevance. However, the attempt to move towards a different perspective from that of traditional economics collides with a deep-rooted belief about the high complexity of measuring and quantifying the creation of social value (Arvidson et al. 2010; Porter et al. 2012). Even if generally accepted accounting principles exist to aid financial reporting, a comparable standard related to the measurement and communication of social impact does not yet exist because it is difficult to universally define the concept, and the related measurement tools often lack the rigour that characterizes scientific approaches aimed at assessing financial returns. Furthermore, the limited resources, the complexity of operationalizing impact, and organizational challenges in collecting and analysing data over time are among the main issues that hamper the implementation of these practices, especially among small and medium social enterprises (Barraket and Yousefpour 2013).

Nevertheless, despite the undeniable difficulties, an efficient assessment method offers many strategic opportunities for social entrepreneurs. Firstly, it provides a process that can improve the organization's performance because it enables a deep understanding of how best to allocate resources to maximize social outcomes. Understanding how activities create value and whom they benefit can help organizations design better targeted programs, and increase their effectiveness by improving what works and eliminating what does not (KPMG 2014). Furthermore, it enables improved accounting practices and enhanced organizational legitimacy within its stakeholder network (Dart 2004). SIA plays an important role in enhancing stakeholder involvement because it foresees listening to feedback from

the beneficiaries of the implemented activities as well as the other directly or indirectly involved parties. Furthermore, as SIA provides information related to the way in which the received investments are used in addressing social issues, this communication is highly strategic, especially in a context of increasingly competitive fundraising. To this end, the interest of those who fund these organizations in supporting the promoted social cause is highly important, and the existence of shared practices aimed at better assessing and communicating social outcomes is relevant for the evaluation of projects in which to invest (Porter et al. 2012; Ruttman 2012). This is a key aspect because the investment sector plays a unique role in promoting ethical practices throughout the economy.

Given this importance, efforts have been and should be made to enhance the development of the practice. Understanding how to strengthen SIA processes can be a promising avenue for future research on social enterprises, to help entrepreneurs understand the best ways to allocate their resources for the achievement of the social mission and to enable social enterprises to benefit from innovative sources of funding, where reporting the generated outcomes is the main criterion for the awarding of grants.

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